

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7
Hopkinsville, KY 42241-0007
Phone: 270-886-3696
Fax: 270-886-0708

Water Commissioners

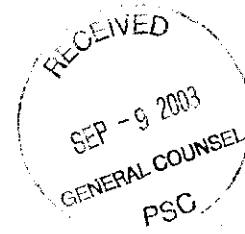
William Lile
Chairman

Austin Young
Secretary

J. David Johnson
Treasurer

Steve Hunt

Ashbel Brunson



September 8, 2003

Case No. 2003-00087

Public Service Commission
P O Box 615
211 Sower Boulevard
Frankfort, KY 40602-0615

RECEIVED

SEP 09 2003

PUBLIC SERVICE
COMMISSION

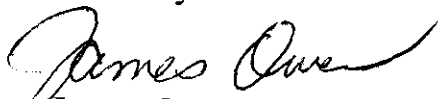
RE: Settlement Conference

It is the opinion of Christian County Water District that, if at all possible, a seller should expect to recapture it's cost plus a reasonable level of profit. It is also the opinion of the Water District that it's customers are entitled to cost based rates from it's source origin to their taps.

In attempting to be fair to both parties, we have prepared a chronicle of correspondence from our file. Any guidance on how we can approach this issue from a different direction would be greatly appreciated. It is everyone's hope that a compromise can be reached before Wednesday the 10th.

We have found your agencies availability, assistance, professionalism and dedication a great resource for our customers and the citizens of Kentucky.

Sincerely


James Owen
General Manager

"Hard of Hearing, Speech Impaired, or Deaf users, call the Kentucky Relay Service at (800) 648-6056. Ask the Communications Assistant to call us at 270/886-3696."

**CHRONICLE
FROM
CHRISTIAN COUNTY WATER DISTRICTS
FILES**

- April 20, 1993 HWEA sets \$1.5425 rate per thousand gallons based on forty percent of the general operating expenses and 50% bond parity.
- October 1, 1997 HWEA rate schedule to its four tier city customers.
- November 21, 2000 The City Council of Hopkinsville establishes new rates and alters existing rate structure, abolishes forth tier (or) City Council increases rates for residential, commercial, industrial customer and chooses not to alter it contractual obligation to its wholesale customers.
- May 30, 2001 Notice of wholesale rate increase by HWEA. (?) (With city council approval) (?) (Without city councils approval) (?)
- July 3, 2001 HWEA July 3, 2001 letter incorrectly dated January 3, 2001 was delivered to CCWD, grants an additional 6 month moratorium on any wholesale rate increase until January 2002 billing.
- July 5, 2001 CCWD thanks HWEA for its gracious moratorium extension.
- July 6, 2001 HWEA acknowledges that in regards to the 1973 contract that "I don't know what justification the authors used in coming up with the percentages used in items (e)". "Finally in regard to items (F)" "CCWD is only responsible for your proportional share of 50% of the required parity".

January 15, 2002	CCWD request PSC input into HWEA non-filed Wholesale rate increase.
January 17, 2002	PSC responses "Until HWEA files its proposed revisions and obtains the approval of the Public Service Commission, it may not charge that revised rate to the Christian County Water District".
January 24, 2002	CCWD notifies HWEA that it must comply with the PSC directive and CCWD must continue to forward payment amounts at the prior billed rate. HWEA continues to bill CCWD at the unapproved rate of \$1.73.
April 15, 2002	As a cost saving measure, CCWD request a cost of service study be performed by the PSC on HWEA behalf, with HWEA approval.
November 12, 2002	CCWD notifies HWEA of it willingness to hire a trained rate analysis employed by Kentucky Rural Water Association. (A trade association both parties belong to and support)
December 26, 2002	In an attempt to determine an equitable cost based rate, CCWD request from HWEA public records and supporting data.
January 20, 2002	HWEA refused CCWD public record request, "HWEA will not be providing the information requested in the subject letter".
March 18, 2003	CCWD was asked to accept binding arbitration in attempts to side set the PSC.
May 21, 2003	HWEA request a meeting

May 23, 2003	CCWD response and a meeting is set.
June 4, 2003	CCWD meets with HWEA, four items are discussed, price, length of contract, quantities, and back pay.
June 5, 2003	HWEA asks for \$98,161.14 in back pay.
June 8, 2003	CCWD Board approves a settlement proposal on three of the four items discussed on June 4 th with the exception, if allowed by PSC of a reduced offer on back pay.
June 9, 2003	CCWD responded to HWEA with a settlement proposal on the three items previously discussed plus, if allowed by the PSC a tentative offer of \$25,000 back pay.
June 13, 2003	HWEA responded to CCWD settlement proposal and accepts the price, contract length and quantities and now request \$50,000 back pay plus it adds two additional requirements. (1) CCWD must notify HWEA each time it adds a new customer. (2) CCWD "shall not wholesale or other wise resale any water". CCWD sole function is to resale water, we purchase water, and we resell water. (See the 1996 contract which says CCWD must give up to HWEA all non-residential customer should you think this is simply a slip of the tongue).
June 18, 2003	The PSC informal conference was postponed, due to the expected confirmation of a settlement proposal.
June 19, 2003	One day after the PSC conference was postponed, Damon Tally receives the following from HWEA "pursuant to our discussion, please find enclosed a

map I hope which more clearly shows the proposed areas which HWEA would be willing to receive from the CCWD as part of a compromise agreement. The subject areas are highlighted in yellow.” Commissioners of CCWD acknowledge to management that they are unaware of any requested discussion on an exchange or forfeiture of “areas” to HWEA.

June 26, 2003

The General Manager of CCWD is given permission to request clarification from the General Manager of HWEA and to hopefully keep the settlement proposal speedily moving forward. (Commissioners of CCWD have consistently stated that it would be acting in bad faith to discuss the issue of back pay as a possible settlement issue without PSC approval of this issue.)

July 3, 2003

Special Counsel provides to CCWD a highlighted color coded map from HWEA of areas HWEA would accept from CCWD in lieu of back pay. Special Counsel is direct by CCWD to request of HWEA that all issue please remain on track as discussed and accepted by HWEA. Therefore any territory issues could be addressed at a later date. Also, CCWD desires were for a speedy conclusion and a fair and equitable settlement agreement for both parties. If HWEA had the same desire, then any attempts to muddy the water would only delay the process.

July 16, 2003

Following the HWEA Board meeting, the following response is received from HWEA. That HWEA accepts only the rate it wished to impose at 1.3 times the city rates. With no documentation to whether these rates are cost based or what these rates are actually based on.

July 18, 2003	An letter from the Manager of CCWD to Special Counsel following a fax of a HWEA response on July 17, 2003.
July 18, 2003	Special Counsel for CCWD requested clarification from Counsel for HWEA and the following is understood: "HWEA has withdrawn the settlement proposal contained in your June 13, 2003 letter to me; and" "HWEA has rejected the settlement proposal from the CCWD contained in my July 8, 2003 letter to you."
August 5, 2003	CCWD proposes a wholesale rate of \$1.62 per thousand gallons to HWEA rather than a floating scale. "According to information provided by Len Hale (Manager of HWEA) at our settlement conference on June 4, 2003 and in a letter dated June 5, 2003 the approximate average or effective rate for the water District will be \$1.62 per 1,000 gallons."
August 7, 2003	"HWEA must respectfully reject the CCWD's counterproposal to buy water at a flat rate of \$1.62 per thousand gallons."
September 4, 2003	CCWD proposed three items to HWEA: (1) to consider extension of the current contract set to expire in the year 2040 to 2045. (2) To increase the daily withdrawal limit to 2 million gallons per day. (3) Once items 1 and 2 are agreed to, pending PSC approval CCWD would propose the acceptance of Schedule 1 at HWEA insistence from the June 4, 2003 meeting.

Counsel for both parties may have information not currently made available to the staff of the District or the Board Of Commissioners of the District.

J. DANIEL KEMP
ATTORNEY AT LAW
608 SOUTH MAIN STREET
P. O. BOX 648
HOPKINSVILLE, KENTUCKY 42241-0648

TELEPHONE 502-886-8272
FAX 502-885-5207

April 20, 1993

Mr. C. D. Burkhead, Chairman
Christian County Water District
1960 Dawson Springs Road
Hopkinsville, KY 42240

RE: Adjustment to Water Rate Agreement
June 28, 1973

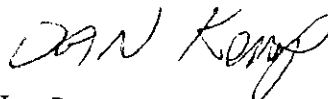
Dear C. D.:

As you know, the Water Purchase Contract between the Hopkinsville Sewerage and Water Works Commission and the Christian County Water District dated June 28, 1973 provides for adjustment of rates in Paragraph 9 of the Agreement. The adjustment is calculated on a set formula based on the Commission's cost of delivering treated water. Adjustments can be made every 3 years and the last adjustment was made July 2, 1987 when the rate was adjusted to \$1.31 per 1,000 gallons.

We have requested Howard K. Bell Engineering to go through the computation based on our contract to determine the appropriate rate to begin July 1, 1993 and that rate has been calculated to be \$1.5425 per 1,000 gallons.

At the regular meeting of the Commission on April 20, 1993, the Commission voted to increase the rate to the County Water District effective July 1, 1993 to \$1.5425 per 1,000 gallons and I enclose the proposed Water Rate Agreement for your review.

Sincerely,



J. Daniel Kemp
Attorney for Sewerage and
Water Works Commission

JDK:bf

Enclosure

cc: Mr. Billy Pool

Mr. McKenzie Moss

SEWERAGE AND WATER WORKS COMMISSION

HOPKINSVILLE, KENTUCKY - CHRISTIAN COUNTY WATER DISTRICT

COMPUTATION FOR COST PER 1,000 GALLONS OF WATER

PER ARTICLE 9, SECTION C OF JUNE 28, 1973 WATER PURCHASE CONTRACT

	April 30 1978	April 30 1979	April 30 1980	April 30 1981	April 30 1982	April 30 1983	April 30 1984	April 30 1985	April 30 1986	February 1987
Source of Supply	\$12,045	\$15,887	\$16,561	\$19,496	\$16,762	\$17,350	\$16,254	\$23,141	\$25,203	\$25,711
Power & Pumping	111,802	123,720	141,009	163,453	190,222	194,501	199,037	200,414	207,852	219,812
Purification	97,487	124,740	98,505	133,062	127,605	136,305	189,660	170,997	173,542	170,456
Distribution										
Supervision	2,530	5,379	5,290	5,390	6,190	6,763	7,137	7,934	8,383	9,061
Labor	44,393	50,023	49,722	50,934	65,033	60,110	61,775	67,156	70,277	70,212
Supplies & Exp	3,092	3,560	5,792	6,844	3,711	5,077	7,250	6,889	6,745	7,958
Repairs-Elev.										
Tanks, Etc.	1,327	1,661	2,289	5,773	21,953	2,580	6,647	5,777	6,971	14,364
Repairs-Distr.										
Mains	8,439	10,781	5,607	11,782	12,780	10,498	16,149	16,522	13,613	18,541
Transportation										
Expense	7,926	9,113	6,387	8,524	8,304	8,442	10,281	15,919	17,371	4,905
Miscellaneous	170	26	37	519	-	50	-	107	34	15
Administrative & General @ 40% (100%*65%)*40%										
Avg. Prin. & Int.	87,564	83,569	93,598	107,573	118,655	128,195	153,010	158,683	171,292	171,665
Bonds	485,911	485,911	485,911	485,911	485,911	485,911	485,911	485,911	485,911	801,289 *
Surplus	145,773	145,773	145,773	145,773	145,773	145,773	145,773	145,773	145,773	240,387
Total	\$1,008,459	1,060,143	1,056,481	1,145,034	1,202,899	1,201,555	1,298,884	1,305,223	1,332,967	1,754,376
No. of 1,000 Gal. Units	\$1,160,189	1,219,499	1,178,945	1,155,861	1,248,330	1,244,639	1,277,119	1,279,256	1,280,399	1,337,207
Avg. Cost Per 1,000 Gals.	\$0.8692	\$0.8693	\$0.8961	\$0.9906	\$0.9636	\$0.9654	\$1.0170	\$1.0203	\$1.0411	\$1.3120

* Includes estimated principal and interest on proposed bond issue of \$3,475,000 for water system improvements.

SEWERAGE AND WATER WORKS COMMISSION

HOPKINSVILLE, KENTUCKY - CHRISTIAN COUNTY WATER DISTRICT

COMPUTATION FOR COST PER 1,000 GALLONS OF WATER

PER ARTICLE 9, SECTION C OF JUNE 28, 1973 WATER PURCHASE CONTRACT

	April 30 1986	February 1987	April 30 1987	April 30 1988	April 30 1989	April 30 1990	April 30 1991	April 30 1992
Source of Supply	\$25,203	\$25,711	\$23,973	\$18,315	\$22,357	\$18,523	\$19,247	\$25,335
Power & Pumping	207,852	219,812	226,903	239,855	256,270	268,789	260,387	312,890
Purification	173,542	170,456	177,694	239,248	247,761	304,231	331,671	381,061
Distribution								
Supervision	8,383	9,061	9,038	10,561	10,901	10,933	10,859	14,042
Labor	70,277	70,212	73,235	73,793	75,493	71,625	77,039	71,667
Supplies & Exp	6,745	7,958	8,490	8,688	9,982	9,344	14,709	31,503
Repairs-Elev.								
Tanks, Etc.	6,971	14,364	15,884	10,698	9,077	10,315	14,502	75,571
Repairs-Distr.								
Mains	13,613	18,541	22,403	22,371	20,335	24,513	33,503	32,818
Transportation								
Expense	17,371	4,905	5,291	6,789	8,998	9,650	11,445	11,668
Miscellaneous	34	15	0	213	52	54	179	730
Administrative & General @ 40% (100%*65%)*40%	171,292	171,665	182,930	210,607	220,920	227,839	254,512	301,126
Avg. Prin. & Int.		(Estimated)						
Bonds	485,911	801,289	803,565	803,565	803,565	803,565	803,565	803,565
Surplus	145,773	240,387	241,070	241,070	241,070	241,070	241,070	241,070
Total	1,332,967	1,754,376	1,790,476	1,885,773	1,926,781	2,000,451	2,072,688	2,303,045
No. of 1,000 Gal. Units	1,280,399	1,337,207	1,348,816	1,408,165	1,396,074	1,442,048	1,409,612	1,493,082
Avg. Cost Per 1,000 Gals.	\$1.0411	\$1.3120	\$1.3274	\$1.3392	\$1.3801	\$1.3872	\$1.4704	\$1.5425

WATER WORKS COMMISSION
101 NORTH MAIN ST. — HOPKINSVILLE, KY.

Water Rate Schedule - January 1, 1987

1.32 per 100 cu. ft.	39.60 First 3000 cu. ft.
1.05 per 100 cu. ft.	31.50 Next 3000 cu. ft.
.83 per 100 cu. ft.	24.90 Next 3000 cu. ft.
.72 per 100 cu. ft.	21.60 Next 3000 cu. ft.
.61 per 100 cu. ft.	18.30 Next 3000 cu. ft.
.50 per 100 cu. ft.	All over 15,000 cu. ft.
First 15,000 cu. ft. = \$135.90	
300 cu. ft. minimum bill - 3.96	

Meter Minimum Rate

¾"	3.96 per month	300 cu. ft.
¾"	5.28 per month	400 Cu. ft.
1"	7.98 per month	600 cu. ft.
1½"	15.95 per month	1200 cu. ft.
2"	26.13 per month	2000 cu. ft.
3"	47.52 per month	
4"	79.86 per month	
6"	312.18	

Private Fire Protection

Rates and Charges not metered — Billed semi-annually in advance

Through 2" connection	65.34 per year
Through 3" connection	94.38 per year
Through 4" connection	152.46 per year
Through 6" connection	275.88 per year
Through 8" connection	399.30 per year
Through 10" connection	609.84 per year
Through 12" connection	871.20 per year

City of Hopkinsville Billed Monthly

Fire Hydrants, per year, per hydrant \$13.56

JANUARY 1, 1987

SANITARY SEWER SERVICE RATES

2.31 per 100 cu. ft.	69.30 First 3000 cu. ft.
1.98 per 100 cu. ft.	59.40 Next 3000 cu. ft.
1.65 per 100 cu. ft.	49.50 Next 3000 cu. ft.
1.43 per 100 cu. ft.	42.90 Next 3000 cu. ft.
1.32 per 100 cu. ft.	39.60 Next 3000 cu. ft.
1.21 per 100 cu. ft.	All over 15000 cu. ft.
First 15000 cu. ft. = \$260.70	
300 cu. ft. - Minimum Bill = \$6.93	

NOTE: Each of the rate steps above include
 \$.77 per 100 cubic feet as a "user charge"
 in compliance with E. P. A. grant provisions.

Combined Water and Sewer Minimum Bill - \$10.89

WATER RATE AGREEMENT

THIS AGREEMENT is entered into by and between the City of Hopkinsville, Kentucky acting by and through its duly authorized agency, the Hopkinsville Sewerage and Water Works Commission (Seller) and the Christian County Water District (Purchaser).

Pursuant to the Water Purchase Contract between the parties dated June 28, 1973, and all amendments and extensions thereof, the parties agree that the water rate paid by the Purchaser to the Seller shall be \$1.5425 per 1,000 gallons for a term of three (3) years beginning July 1, 1993.

This Agreement was approved by duly authorized and lawful meetings of both parties.

Executed in quadruplicate this 7th day of May, 1993.

SELLER:

City of Hopkinsville, acting
by and through its Sewerage
and Water Works Commission

By: Wendell Lynch
Wendell Lynch, Chairman

ATTEST:

Mckenzie T. Moss
Mckenzie T. Moss, Secretary

PURCHASER:

Christian County Water District

By: C. D. Burkhead
C. D. Burkhead, Chairman

ATTEST:

Roy D. Franklin
Roy D. Franklin, Secretary

OCTOBER 1, 1997

WASTEWATER SERVICES RATES

2,490 per 100 cu. ft.	74.70 First 3000 cu. ft.
2,157 per 100 cu. ft.	64.71 Next 3000 cu. ft.
1,804 per 100 cu. ft.	54.12 Next 3000 cu. ft.
1,532 per 100 cu. ft.	All over 9000 cu. ft.
First 9000 cu. ft. = \$193.53	
300 cu. ft. - Minimum bill \$7.47	

Combined Water and Sewer Minimum Bill - \$12.66

Hopkinsville Water Environment Authority
101 North Main Street
Hopkinsville, KY

Water Rate Schedule - July 1, 1995

1.73 per 100 cu. ft.	51.90 First 3000 cu. ft.
1.42 per 100 cu. ft.	42.60 Next 3000 cu. ft.
1.12 per 100 cu. ft.	33.60 Next 3000 cu. ft.
.86 per 100 cu. ft.	All over 9000 cu. ft.
First 9000 cu. ft. = \$128.10	
300 cu. ft. minimum bill - \$5.19	

Water Minimum Rate

5/8"	5.19 per month	300 cu. ft.
3/4"	6.92 per month	400 cu. ft.
1"	10.38 per month	600 cu. ft.
1 1/2"	20.76 per month	1200 cu. ft.
2"	34.60 per month	2000 cu. ft.
3"	62.28 per month	3600 cu. ft.
4"	103.80 per month	6000 cu. ft.
6"	408.28 per month	23,600 cu. ft.

Private Fire Protection

Through 2" connection	Billed semi-annually in advance
Through 3" connection	85.53 per year
Through 4" connection	123.54 per year
Through 6" connection	199.57 per year
Through 8" connection	361.13 per year
Through 10" connection	522.69 per year
Through 12" connection	798.28 per year
	1140.40 per year

City of Hopkinsville Billed Monthly
Fire Hydrants, per year, per hydrant

\$57.00

ORDINANCE NO. 30-2000

Outside Crofton City Limits
First 150 CF
All over 150 CF

\$11.59 Flat Rate
\$ 3.06 per 100 CF

Next 2,700 cubic feet -1.72 \$1.77
Next 3,000 cubic feet -1.42 \$1.55
Next 3,000 cubic feet -1.12

(D) Surcharge rates

(1) Surcharge rate shall be determined in accordance with § 52.108 and shall be evaluated annually and automatically adjusted to the evaluated rate.

(2) Surcharge rates effective on enactment of this subchapter shall be as follows:

- (a) BOD: ~~\$1.15 per pound~~ .18 per pound
(b) TSS: ~~\$1.15 per pound~~ .18 per pound
(c) NH3-N: ~~\$1.03 per pound~~ 1.25 per pound

(3) Method of billing surcharge.

(a) The surcharge will be due ten days after the billing date. If the surcharge is not paid by the fifteenth day after the due date, the Sewer and Water Works Commission is authorized to cut off water service to the customer.

(b) No reduction in sewerage service charges or fees or taxes shall be permitted because of the fact that certain wastes discharged to the Sewerage Works contains less than the current limitations.

SECTION TWO

That Section 53.35 of the Hopkinsville Code of Ordinance be amended to read as follows:

§ 53.35 MONTHLY WATER RATES.

The monthly rates and charges for water service furnished by the system are fixed and established on a monthly basis as follows:

(A) Meter minimum rate.

	Rates
Monthly minimum for 5/8 inch meter	\$5.19 per <u>\$5.31 per</u> 300 cu. ft.
Monthly minimum for 3/4 inch meter	\$6.92 per <u>\$7.08 per</u> 400 cu. ft.
Monthly minimum for 1 inch meter	\$10.38 per <u>\$10.62 per</u> 600 cu. ft.
Monthly minimum for 1 1/2 inch meter	\$20.76 per <u>\$21.24 per</u> 1,200 cu. ft.
Monthly minimum for 2 inch meter	\$34.60 per <u>\$35.40 per</u> 2,000 cu. ft.
Monthly minimum for 3 inch meter	\$62.38 per <u>\$63.72 per</u> 3,600 cu. ft.

(B) Water Consumption Rates for Pembroke Division Usage.
Subject to the minimum monthly water rate specified above, the following metered charges shall be made for each 100 cubic feet of water consumption per month to customers of all size connections to the Pembroke Utility Division.

PEMBROKE DIVISION WATER SERVICES

MONTHLY RATE SCHEDULE

(adopted by Ord. 28-99/passed by City Council 8-03-99, 8-17-99/effective 9-02-99)

Water Consumption Per Month	Rate
First 300 cu. ft.	\$8.25
Next 1,700 cu. ft.	\$1.54/100 cu. ft.
Next 2,000 cu. ft.	\$1.80/100 cu. ft.
Next 3,000 cu. ft.	\$1.40/100 cu. ft.
Next 3,000 cu. ft.	\$1.10/100 cu. ft.
All over 10,000 cu. ft.	\$0.986/100 cu. ft.

(C) Water Consumption Rates for Crofton Utility Division Usage. The following schedule of rates shall be made for each 100 cubic feet of water consumption per month to customers of all size connections to the Crofton Utility Division.

CROFTON UTILITY DIVISION WATER SERVICES

MONTHLY RATE SCHEDULE

(adopted by Ord. 13-2000/passed by City Council 8-01-00, 8-15-00/effective 8-25-00)

Inside Crofton City Limits	Flat Rate
First 300 CF	\$10.18
All over 300 CF	\$ 2.14 per 100 CF
Outside Crofton City Limits	Flat Rate
First 300 CF	\$11.83
All over 300 CF	\$ 2.14 per 100 CF

SECTION THREE

If any section, subsection, sentence, clause, or phrase of this ordinance is for any reason held unconstitutional or otherwise invalid, such infirmities shall not affect the validity of the remaining portions of this ordinance.

SECTION FOUR

Any and all existing ordinances inconsistent with this ordinance are hereby repealed.

SECTION FIVE

This ordinance shall take effect upon publication.

Hopkinsville Water Environment Authority

401 East Ninth Street • P.O. Box 628 • Hopkinsville, Kentucky 42241-0628



Phone (502) 887-4240

Fax (502) 887-4244

LEN F. HALE
GENERAL MANAGER

May 30, 2001

Mr. James Owen, Manager
Christian County Water District
P.O. Box 7
Hopkinsville, KY. 42241-0007

Subject: Change in Wholesale Water Rates

Dear James:

In case you had forgotten, we wanted to make you aware that the water rates charged by HWEA for water consumed by the Christian County Water District (CCWD) will change on June 30, 2001. In the Contract Modification Agreement signed on June 19, 1996, the method for determining the wholesale water rates was changed to 1.3 times the HWEA user rates. This was the rate change requested by the CCWD at that time. The HWEA in the agreement kept the wholesale rate constant for over five years. However as the contract agreement stipulated, the wholesale rate was to change to a multiplier rate of 1.3 times the HWEA rate on June 30, 2001. The wholesale rate prior to 1996 was established in the original water purchase agreement of June 28, 1973 in the form of a formula for determining the cost of water. The formula was used to evaluate the rate every three years.

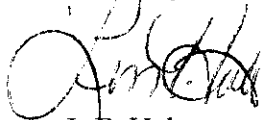
In an effort to help you gauge the impact of this rate change, we have used the last monthly bill for the water consumed at your Princeton Road water meter for comparison. Last month the CCWD consumed 274,540 cubic feet. The bill for this meter last month was \$2965.03. Using the new rate of 1.3 times the HWEA rate results in a bill of \$4039.42 for the same consumption. This is approximately 36.2% higher than the previous monthly bill. The current HWEA water rates approved by the Hopkinsville City Council in November 2000 are: \$1.77/100 CF for the first 3000 CF, \$1.55/100 CF for the next 3000 CF, and \$1.12/100 CF for all over 6000 CF.

Mr. James Owen
May 30, 2001
Page 2

This new rate will be charged on all bills issued by HWEA to the CCWD after June 30, 2001. The water rates will not change after June 30, 2001 until the City Council changes HWEA rates for the Hopkinsville Utility Division.

If you have any questions or wish to discuss this matter, please contact us. If you need copies of the documents referenced herein, please call us.

Sincerely,

A handwritten signature in dark ink, appearing to read "L.F. Hale", is written over the word "Sincerely,".

L.F. Hale
General Manager

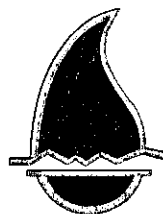
enclosures

cc: HWEA Board of Commissioners
Hon. Steve Tribble, Judge Executive

Hopkinsville Water Environment Authority

401 East 9th Street • P.O. Box 628 • Hopkinsville, Kentucky 42241-0628

Len F. Hale
General Manager



HWEA

Phone (270) 887-4246

Fax (270) 887-4244

January 3, 2001

Mr. James Owen, Manager
Christian County Water District
P.O. Box 7
Hopkinsville, KY. 42241


Subject: Change in Wholesale Water Rates

Dear James:

Pursuant to our recent discussions and meeting, effective January 1, 2002, the wholesale water rate charged by HWEA to CCWD will change from \$1.44 per 1000 gallons to \$1.73 per 1000 gallons. This new rate was calculated from the formula contained in the June 28, 1973 Water Purchase Contract. This contract and its rate formula were approved by the PSC on September 1, 1994. This formula has been used continuously since 1973 for routinely setting and evaluating water purchase rates. The new rates were derived from costs contained in the HWEA FY 2001 Audit.

On May 30, 2001 we notified you that the rate would be changing on July 1, 2001, based on the contract amendment signed on June 19, 1996. That amendment in addition to lowering the wholesale water rates for the CCWD, also granted the CCWD a five-year rate increase moratorium. Although the water rates were to have increased on July 1, 2001, the HWEA decided to extend the moratorium for 6 more months hoping to resolve many existing issues with the CCWD. Also the moratorium was delayed in order to permit the CCWD time to evaluate your customers' rates in light of the wholesale rate increase.

The water bills to be issued by HWEA to CCWD will reflect the new wholesale rate beginning with the January 2002 billing.

Sincerely,

L.F. Hale
General Manager

cc: HWEA Board of Commissioners

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7
Hopkinsville, KY 42241-0007
Phone: 270-886-3696
Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

John Berry
Secretary

J. David Johnson
Treasurer

Austin Young

Steve Hunt

July 5, 2001

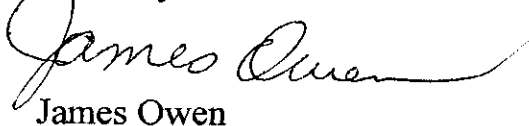
Len Hale
General Manager
HWEA
P O Box 628
Hopkinsville, KY 42241-0628

Dear Len:

We appreciate you taking the time to contact us. We are in agreement that at this time, it would be in everyone best interest to delay any adjustment to the wholesale water rate. Your offer was very gracious and we sincerely appreciate the time and effort that you and your Board have put into this matter.

We have taken the liberty of including a copy of a transportation agreement between our two systems in regard to your Crofton facility. We have attempted to build a few safe guards into the agreement to, hopefully, protect both systems. We never anticipate changes, however, the make up and structure of Boards can change. Please review the enclosed agreement and if we can be of any further assistance, please feel free to contact us.

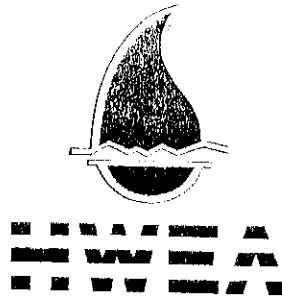
Sincerely



James Owen

Hopkinsville Water Environment Authority
401 East 9th Street • P.O. Box 628 • Hopkinsville, Kentucky 42241-0628

Len F. Hale
General Manager



Phone (270) 887-4240
Fax (270) 887-4244

December 6, 2001

Mr. James Owen, Manager
Christian County Water District
P.O. Box 7
Hopkinsville, KY. 42241-007

Subject: FY 2001 Audit and Rate Formula

Dear Mr. Owen:

At Monday's meeting you requested a copy of our FY 2001 audit in regards to the costs required in the rate formula of the 1973 contract. Our audit is very lengthy since it contains the Hopkinsville, Pembroke, and Crofton Divisions. I have only copied the pages that pertain to information needed to include in the rate formula.

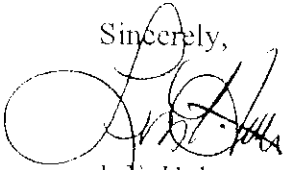
You also requested that we try to explain components "d, e, and f" of the formula. As I mentioned to you in the meeting, I don't know what justification the authors used in coming up with the percentages used in items "e". However please keep in mind that all three parties had agreed that the formula was acceptable and fair. In regard to Item "d", I have included a line item breakdown of all water distribution costs. I have highlighted the line item that we interpret are to be included in the formula.

Finally in regards to Item "P", we take only the bonded indebtedness related to water projects; no wastewater bonded indebtedness is included in the formula. Furthermore since the formula does not provide for us to recover any indebtedness costs from low-interest loans, we're not permitted to use the principal and interest payments from the \$5 million Fund B loan we have on the new Moss WTP. Again as with Item "e", the original authors developed the 50% parity issue. We use the required parity as defined by each water bond issue. As I explained on Monday, the CCWD is only responsible for your proportional share of 50% of the required parity. There may be some that would argue that since our ratepayers pay their proportional share of 100% of the bond parity, that the CCWD should also share in their proportional share of 100% of the bond parity.

Mr. James Owen
December 6, 2001
Page 2

We trust you will find this information complete and satisfactory to meet your demands.
If you have any questions or desire more information, please contact us.

Sincerely,

A handwritten signature in black ink, appearing to be "L.F. Hale", written over a large, stylized circular flourish.

L.F. Hale
General Manager

enclosures

cc: HWEA Board of Commissioners
Judge Steve Tribble

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7

Hopkinsville, KY 42241-0007

Phone: 270-886-3696

Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

John Berry
Secretary

J. David Johnson
Treasurer

Austin Young

Steve Hunt

January 15, 2002

Kentucky Public Service Commission
P O Box 615
211 Sower Blvd.
Frankfort, KY 40601

RE: Notification of Unapproved
Wholesale Water Rate Increase

The Hopkinsville Water Environment Authority notified Christian County Water District by correspondence dated January 3, 2002, of an increase in our wholesale water rates.

Today, January 15, 2002, we received two bills with this new proposed rate increase already passed on to the Christian County Water District. We, at the District, were not aware that the Hopkinsville Water Environment Authority had filed with the KY. Public Service Commission for an wholesale rate increase.

We have monitored the PSC web page and have not detected a filing by the Hopkinsville Water Environment Authority. We, therefore, must assume that the required filing with the Public Service Commission has not occurred. Therefore, we are assuming that we are not bound by this newly imposed rate hike and shall continue to pay our old rate, until such time as Hopkinsville Water Environment Authority has implemented a wholesale rate filing and received KY. Public Service Commission approval.

"Hard of Hearing, Speech Impaired, or Deaf users, call the Kentucky Relay Service at (800) 648-6056. Ask the Communications Assistant to call us at 270/886-3696."

Therefore, we are asking for your input as to what steps Christian County Water District should now follow.

As always your help and guidance would be greatly appreciated.

Sincerely

A handwritten signature in black ink that reads "James Owen". The signature is written in a cursive style with a long, sweeping underline.

James Owen
General Manager



Yorrey

Paul E. Patton, Governor
 Ronald B. McCloud, Secretary
 Public Protection and Regulation
 Cabinet

Thomas M. Dorman
 Executive Director
 Public Service Commission

COMMONWEALTH OF KENTUCKY
 PUBLIC SERVICE COMMISSION
 211 SOWER BOULEVARD
 POST OFFICE BOX 615
 FRANKFORT, KENTUCKY 40602-0615
 www.psc.state.ky.us
 (502) 564-3940
 Fax (502) 564-3460

Martin J. Huelsmann
 Chairman

Gary W. Gillis
 Vice Chairman

Robert E. Spurlin
 Commissioner

January 17, 2002

Mr. L. F. Hale
 Hopkinsville Water Environment Authority
 P.O. Box 628
 Hopkinsville, Kentucky 42241-0628

Dear Mr. Hale:

Christian County Water District has advised the Public Service Commission that the Hopkinsville Water Environment Authority ("HWEA") has increased its rate for wholesale water service. The purpose of this letter is to advise you of the procedures that must be followed to implement any adjustment in wholesale rates.

In Simpson County Water District v. City of Franklin, Ky., 872 S.W.2d 460 (1994), the Kentucky Supreme Court held that the Public Service Commission has jurisdiction over contracts between municipal utilities and public utilities and that changes in any rate that a municipal utility assesses a public utility for wholesale utility service must be approved by the Public Service Commission. Pursuant to the Simpson County decision, the Public Service Commission in Administrative Case No. 351 directed that "[a]ny municipal utility wishing to change or revise a contract or rate for wholesale utility service to a public utility shall, no later than 30 days prior to the effective date of the revision, file with the Commission the revised contract and rate schedule." A copy of the Simpson County decision and the Public Service Commission's Order is enclosed.

Consistent with the Public Service Commission's Order in Administrative Case No. 351 and KRS 278.160, contracts and rate schedules filed with the Public Service Commission shall control the rates and conditions of service of the parties. Changes to those currently on file with the Public Service Commission shall be made in accordance with KRS 278.180 and Administrative Regulation 807 KAR 5:011. Until such changes are approved by the Commission, existing contracts and rate schedules remain in effect.

The Commission has not approved the rate increase that became effective December 4, 2001. Therefore, HWEA may bill Christian County Water District only at the rates in effect on December 3, 2001. Until HWEA files its proposed revisions with and obtains the approval of the Public Service Commission, it may not charge that revised rate to Christian County Water District.



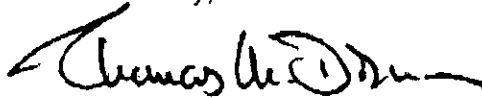
Mr. L.F. Hale
January 17, 2002
Page 2

and obtains the approval of the Public Service Commission, it may not charge that revised rate to Christian County Water District.

Enclosed is the Public Service Commission's letter of December 18, 1998, which contains detailed guidance on the procedures that a municipal utility must follow when changing its rates for utility service to public utilities. Please note that in addition to the documents discussed in that letter, HWEA should submit a copy of the ordinance(s) that authorize the proposed rate adjustment.

Any questions regarding this letter should be directed to Gerald Wuetcher, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas M. Dorman", with a stylized flourish at the end.

Thomas M. Dorman
Executive Director

Enclosures

cc: B Kirtley

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7

Hopkinsville, KY 42241-0007

Phone: 270-886-3696

Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

John Berry
Secretary

J. David Johnson
Treasurer

Austin Young

Steve Hunt

January 24, 2002

Mr. Len F. Hale, General Manager
Hopkinsville Water Environment Authority
P O Box 628
Hopkinsville, KY 42241-0628

Subject: Proposed Rate Increase

Certified Article # 70993400001460473267

Dear Len:

We have been advised by the Kentucky Public Service Commission that HWEA's wholesale rate of \$1.73 has not been approved by the PSC. We have also been advised that the Water District cannot legally pay the \$1.73 rate until it has been approved by the PSC. Therefore, the Water District will continue to pay HWEA the old rate of \$1.44 until a new rate is approved by PSC.

We have taken the liberty of re-calculating the recent bills that we received from HWEA. The amount enclosed with this letter reflects the amount due at the old rate of \$1.44.

The Water District has also engaged the services of attorney Damon R. Tally of Hodgenville (270-358-3178) to serve as our special legal counsel on all matters relating to the rate increase. He has considerable experience in dealing with the PSC on matters like this. He will be contacting your attorney in the near future.

If you have any questions, please feel free to contact me.

Sincerely

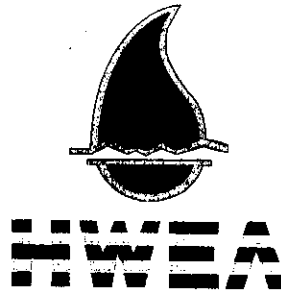


James Owen, General Manager

"Hard of Hearing, Speech Impaired, or Deaf users, call the Kentucky Relay Service at (800) 648-6056. Ask the Communications Assistant to call us at 270/886-3696."

Hopkinsville Water Environment Authority
401 East 9th Street • P.O. Box 628 • Hopkinsville, Kentucky 42241-0628

Len F. Hale
General Manager



Phone (270) 887-4246
Fax (270) 887-4244

January 20, 2002


Mr. William Lile, Chairman
Christian County Water District
P.O. Box 7
Hopkinsville, KY. 42241

Subject: Response to Letter of December 26, 2002

Dear Mr. William:

We are in receipt of your letter of December 26, 2002 informing us of the Water District's plan to have the Kentucky Rural Water Association conduct an evaluation of the wholesale water rate. That letter also requested information from HWEA needed to complete this evaluation. The HWEA maintains that the 1973 Water Purchase Agreement and the wholesale water rate formula contained therein is valid and effective. Furthermore HWEA has a 1996 Amendment to the Water Purchase Agreement that was ratified by both the Christian County Water District Board and HWEA. In light of this Agreement, HWEA will not be providing the information requested in the subject letter.

Sincerely,


Robert Carter,
Chairman

c: HWEA Board of Commissioners
Andrew Self, HWEA Attorney

DAMON R. TALLEY, P.S.C.

112 N. LINCOLN BLVD.
P.O. BOX 150
HODGENVILLE, KENTUCKY 42748

TEL. (270) 358-3187
FAX (270) 358-9560

DAMON R. TALLEY

April 15, 2002

ATTORNEY AT LAW

Mr. Thomas Dorman
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RE: Hopkinsville Water Environment Authority
Wholesale Water Rate to
Christian County Water District

Dear Mr. Dorman:

This letter is being written on behalf of the Christian County Water District (the "District") and in response to the January 29, 2002 letter from Andrew C. Self to you. Mr. Self is the attorney for the Hopkinsville Water Environment Authority (the "HWEA").

The purpose of this letter is twofold:

1. To contest and challenge some of the legal conclusions contained in Mr. Self's January 29, 2002 letter; and
2. To request the PSC staff to perform a cost of service study for HWEA and determine the appropriate wholesale rate for HWEA to charge the District.

First, the District **disagrees** with HWEA's position that the rate formula contained in the 1973 agreement between HWEA and the District is still in full force and effect. The formula was cancelled and made null and void by the June 19, 1996 Contract Modification Agreement between HWEA and the District (A copy of this Modification Agreement was attached to Mr. Self's January 29, 2002 letter).

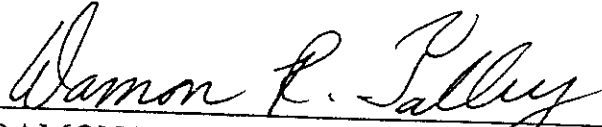
In 1996, both HWEA and the District recognized that the 1973 formula no longer produced a rate that was fair, just and reasonable. By mutual agreement, the parties agreed upon a new wholesale rate and cancelled the 1973 rate formula. Moreover, not only did the parties agree to cancel to rate formula, but they also agreed to modify the provisions of the 1973 agreement that required the rate to be recalculated every three (3) years. (See 1996 Modification Agreement).

Apparently, HWEA has now unilaterally decided to ignore the 1996 Modification Agreement and reinstate the 1973 rate formula. There has been no such agreement by the parties. The District's Board of Commissioners has **not** taken any action to rescind the 1996 Modification Agreement and reinstate the 1973 rate formula.

Secondly, the District hereby requests the PSC Staff to perform a cost of service study for HWEA and determine the appropriate wholesale rate for HWEA to charge the District. Naturally, the PSC cannot undertake such a study unless HWEA assents. Both HWEA and the District will save tens of thousands of dollars if the PSC performs the study. Hopefully, HWEA will agree and will request the PSC Staff to perform a cost of service study.

In summary, HWEA cannot unilaterally ignore the 1996 Modification Agreement and revert to the 1973 rate formula. Any wholesale rate increase proposed by HWEA must be approved by the PSC before it becomes effective.

Yours truly,
DAMON R. TALLEY, P.S.C.


DAMON R. TALLEY, ATTORNEY FOR
CHRISTIAN COUNTY WATER DISTRICT

DRT:ln

cc: Andrew C. Self
Christian County Water District

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7

Hopkinsville, KY 42241-0007

Phone: 270-886-3696

Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

Austin Young
Secretary

J. David Johnson
Treasurer

Steve Hunt

Ashbel Brunson

November 12, 2002

Robert C. Carter, Chairman
Hopkinsville Water Environment Authority
P O Box 628
Hopkinsville, KY. 42241-0628

RE: Wholesale Rate of Water

Dear Bob:

We wish to inform you that we have solicited the assistance of Carryn Lee, a trained professional rate analyst, from KRWA. Mrs. Lee will be assisting our counsel in a review of the proposed wholesale rate increase. We, like you, have every desire to be fair on this issue. We hope that with the new guidance now available to your Board; our two Board's can mutually agree on what is a fair and equitable wholesale rate and move forward on this matter. We sincerely plan on doing what is in the best interest for the citizens of Christian County.

Once we have been briefed by our counsel on their findings, we can hopefully meet with you and your representative and move forward on this issue.

Sincerely



William Lile
Chairman

cc: Len Hale

"Hard of Hearing, Speech Impaired, or Deaf users, call the Kentucky Relay Service at (800) 648-6056. Ask the Communications Assistant to call us at 270/886-3696."

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7
Hopkinsville, KY 42241-0007
Phone: 270-886-3696
Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

Austin Young
Secretary

J. David Johnson
Treasurer

Steve Hunt

Ashbel Brunson

December 26, 2002

Mr. L.F. Hale
General Manager
Hopkinsville Water Environmental Authority
P.O.Box 628
Hopkinsville, KY. 42241-0628

RE: Wholesale Rate Increase to Christian County Water District

Dear Mr. Hale:

The management of Christian County Water District has contracted the services of the Kentucky Rural Water association to review Hopkinsville's proposed wholesale rate increase. Christian County believes it would be in the interest of both the water district and the city to determine what would be a fair and equitable wholesale rate.

We have requested a third party cost of service study in order to determine the reasonable wholesale rate that the district should pay. While no one wants to pay increased rates, the water district feels an obligation to its customers to ensure that the wholesale rate it will pay is justified. Should this study determine a rate increase is warranted, the water district is prepared to negotiate an increased rate as long as we know the rate is cost based.

Once this study is received, we hope that we can meet with you and discuss any difference in the wholesale rate structure. In order for the study to be completed, the following information is requested:

For the fiscal year 2001:

1. An amortization schedule for all long term debt.
2. An explanation of why the debt was incurred in order that the benefit to Christian County may be determined.

"Hard of Hearing, Speech Impaired, or Deaf users, call the Kentucky Relay Service at (800) 648-6056. Ask the Communications Assistant to call us at 270/886-3696."

3. A breakdown of utility expense of \$249,517 for the year 2001, that is listed under water purification expense.
4. For 2001, an explanation of the items constituting "water technical services".
5. For 2001, under administrative and general expense, telephone is shown as \$19,150. Is this for phone service at the office only or for cell phones and phones at the treatment plant? Can a breakdown be provided?
6. Provide a breakdown of insurance and bond expense of \$86,144 for 2001.
7. Provide a breakdown of depreciation expense for the water department for the year 2001.
8. How were administrative and general expenses allocated between the water and wastewater departments?
9. For 2001 provide the gallons used for the following:

	Gallons
Total Produced	
Total Sales to Resale	
Sales to Christian County	
Other Sales	
Free or Unmetered Water	
Plant Use	
Line Loss or Unaccounted	

10. Complete the following table:

Main Size	Total Miles of Line	Jointly Used Miles of Line
16"		
14"		
12"		
10"		
8"		
6"		
4"		
2"		

11. The contract modification agreement dated June 19, 1996 states at Item 1(b) that beginning July 1, 2001 the new rate charged to the county will be based on an index of 1.3 times the applicable city rates. Can you explain this statement, does Hopkinsville interpret this to mean the 1.3 factor would be applied to the Hopkinsville Division rates, the Pembroke Division rates or the Crofton Division rates?

For the year 2002:

Any information which would be available, such as audits, financial statements, or any information requested in the item's above (one through ten) which might have changed from 2001 to 2002.

In order that the cost of service study can be conducted in a timely manner, please furnish this information at your earliest convenience. We look forward to working with HWEA in order to resolve this matter. Should you have questions feel free to contact either our staff or Carryn Lee with the Kentucky Rural Water Association.

Sincerely,

A handwritten signature in cursive script, appearing to read 'William Lile', written in dark ink.

William Lile
Chairman



EXECUTIVE OFFICES

CHRISTIAN COUNTY

STEVE TRIBBLE
COUNTY JUDGE EXECUTIVE

515 WEBER STREET
HOPKINSVILLE, KENTUCKY 42240

TELEPHONE
270-887-4100

FAX
270-885-7501

March 18, 2003

Mr. James Owen
Christian County Water District
Dawson Road
Hopkinsville, KY 42240

Re: HWEA and CCWD

Dear James:

Following our last meeting, Mike Foster and I met with Andrew Self and Len Hale in an effort to resolve the problems concerning the water contract between CCWD and HWEA. After much discussion with both organizations, it is very clear that we are in a deadlock as to the current water contract between the agencies and a determination of the price.

My worst fear is that this matter will go to litigation whereby the entire community will suffer as a result of the lawsuit. Near the end of our meeting with HWEA, Mike and I suggested that HWEA should agree to binding arbitration. After further discussion, they agreed to consider this suggestion.

We have now been advised that HWEA will agree to binding arbitration. This will allow the two agencies to pick an impartial arbitrator who will hear the arguments of both sides and make a determination as to the wholesale water rate. This is quicker, faster, and far less expensive than litigation.

You previously indicated that the County Water District would agree to this process. This is similar to your original suggestion that both sides designate an expert to calculate the rate. Arbitration would take your suggestion one step further by simply making both parties agree, in writing, to live with the result.

I know that Mike Foster has been involved in a lot of arbitration proceedings both for the County and some of his private clients. Therefore, I asked Mike to draft an Arbitration Agreement that would allow us to bring this matter to a conclusion. I have included the Arbitration Agreement for your review.



Page 2
James Owen
March 18, 2003

I would ask that your Board approve this Arbitration Agreement as soon as possible. We will then present the Arbitration Agreement to HWEA for approval by their Board.

I thank you for your suggestion of arbitration during our last meeting. This appears to be the best way to solve this problem and get on with serving our customers.

Please return the signed Arbitration Agreement to me and I will deliver it to HWEA for their signature and approval.

Sincerely,



Steve Tribble
County Judge/Executive

ST/sg
Enclosure

cc: Mike Foster, Christian County Attorney

ARBITRATION AGREEMENT

This agreement is made and entered into on the _____ day of March, 2003, by and between the Hopkinsville Water Environment Authority (HWEA) and the Christian County Water District (CCWD), for the purpose of entering into binding arbitration to settle certain disputes that have arisen between the parties.

SECTION I

Matters To Be Submitted To Arbitration

The following matters shall be submitted to and settled by binding arbitration as set forth in this agreement and pursuant to KRS Chapter 417:

- A. The wholesale water rate to be paid by CCWD to HWEA, including the method or formula for calculating that rate in the future; and
- B. Whether CCWD owes any arrearage or past due amounts to HWEA for the purchase of wholesale water, including whether any interest or penalties may apply.

SECTION II

Procedures

The resolution of the agreed upon issues shall be determined by arbitration in the following manner and subject to the following terms and conditions:

- A. Upon execution of this agreement, CCWD shall immediately withdraw any claim, complaint, or protest it has previously filed with the Public Service Commission (PSC) regarding the wholesale water rate charged by HWEA.

B. Within ten (10) days from the date of the execution of this agreement, the respective general managers of HWEA and CCWD shall attempt to agree upon a qualified arbitrator who will serve as the sole arbitrator. If the parties are unable to select an arbitrator in this manner, within five (5) days, HWEA shall submit a list of three (3) qualified arbitrators to CCWD from which CCWD shall be allowed to select the sole arbitrator.

C. Upon selection of the arbitrator, an arbitration hearing shall be scheduled within thirty (30) days after the selection of the arbitrator, or as soon thereafter as is practicable. At the hearing, each party shall be allowed to present its case, including evidence and witnesses, if any, in the presence of the other party. Each witness shall be subject to cross-examination by the other party and the arbitrator shall have absolute discretion regarding issues of admissibility, relevance, and all other evidentiary matters.

D. Within thirty (30) days following the arbitration hearing, the arbitrator shall render his decision.

E. The parties shall split equally the costs associated with the arbitration, including the arbitrator's fees and expenses. Each party shall be responsible for its own attorney's fees and other costs incurred in connection with the arbitration.

F. The decision of the arbitrator shall be binding on the parties and judgment may be entered on such award in and by Christian Circuit Court, pursuant to KRS 417.

SECTION III

Governing Law

It is agreed that this Arbitration Agreement shall be governed by, construed, and enforced in accordance with the laws of the Commonwealth of Kentucky.

SECTION IV

Modification Of Agreement

Any modification of this agreement or additional obligation assumed by either party in connection with this agreement shall be binding only if evidenced in writing signed by each party or an authorized representative of each party.

SECTION V

Other Agreements

The parties recognize and acknowledge that they have other agreements regarding other matters which are not the subject of this arbitration. Any agreements between the parties which are not specifically addressed by this Arbitration Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each party to this agreement has caused it to be executed on the date indicated below by its chairman.

Robert C. Carter, HWEA Chairman

William Lile, CCWD Chairman

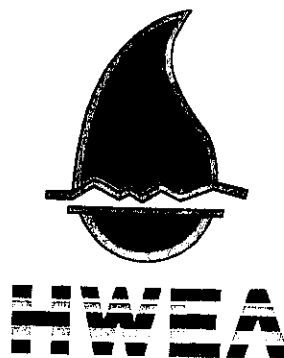
Date

Date

Hopkinsville Water Environment Authority

401 East 9th Street • P.O. Box 628 • Hopkinsville, Kentucky 42241-0628

Len F. Hale
General Manager



Phone (270) 887-4246

Fax (270) 887-4244

May 21, 2003

Mr. William Lile, Chairman
Christian County Water District
P.O. Box 7
Hopkinsville, KY. 42241-0007

Subject: Wholesale Water Rate

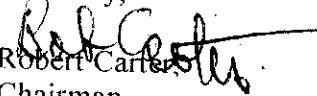
Dear William:

Pursuant to Item #2 of the PSC Order dated May 16, 2003, HWEA would like to request a conference with the Christian County Water District. We would like to request that you, Mr. Owens, your attorney, and another Board Member be present at the meeting. In addition, we are requesting that Judge Tribble and Mike Foster be invited. HWEA representatives will include Commissioner Robert Babbage, Andrew Self, Len Hale, and me.

Please contact Len Hale or his administrative assistant at 887-4240 to set up a time and place for this meeting. They in turn will contact the other HWEA parties, Judge Tribble, and Mike Foster to coordinate their attendance. A couple of alternate meeting times would be helpful in scheduling this meeting.

Thank you in advance for your cooperation with this request.

Sincerely,


Robert Carter
Chairman

c: Hon. Steve Tribble, Judge Executive
Mr. Mike Foster, County Attorney
HWEA Board of Commissioners

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7

Hopkinsville, KY 42241-0007

Phone: 270-886-3696

Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

Austin Young
Secretary

J. David Johnson
Treasurer

Steve Hunt

Ashbel Brunson

May 23, 2003

ROBERT CARTER
HEWA CHAIRMAN
P O BOX 628
HOPKINSVILLE KY 42240

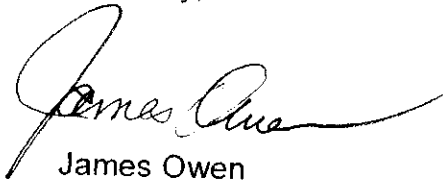
Dear Mr. Carter:

Mr. Lile received your letter dated May 21, 2003 concerning Item #2 of the PSC order dated May 16, 2003 and your request for a conference with a representative of the Christian County Water District's Commission, the district's attorney and myself.

The individuals named in this letter have been contacted and there are several dates that are available for them to attend such a meeting. Those dates are as follows: May 30th, June 2nd, June 3rd, or June 4th. The time of the meeting for these dates will have to be after 10:00 a.m.

Should the above dates or time not be satisfactory, please contact me and I will try to reschedule a mutually agreeable date and time.

Sincerely,



James Owen
Manager



Hopkinsville Water Environment Authority
401 East 9th Street, P.O. Box 628
Hopkinsville, KY 42240
Phone (502) 887-4237 Fax (502) 887-4244

To: Damon Talley
(270) 358-9560

From: Len Hale

Date: June 5, 2003

Subject: CCWD Wholesale Water Rate

Message: Mr. Talley;

Per your request please find attached a breakdown on the calculation of the wholesale water rate based on the 1.3 multiplier. We used the master meter on the Princeton Road as the example.

We used this rate (\$1.62) less the current rate of \$1.44/1000 gallons to calculate the back payment amount. We have also attached a table showing the consumption from all twelve CCWD master meters for the period from January 2002 through May 2003. The total consumption was 72,906,370 cubic feet. We converted this consumption to gallons and divided by 1000. This number was then multiplied by \$0.18 (1.62-1.44) resulting in a back pay amount of \$98,161.14.

If you have any questions or need more information, please contact us. If you have questions during the meeting tonight, you may call me at home at (270) 885-1918.

Thank you.

Number of Pages 3 (including cover)

Hard copy will not follow by mail.

If you do not receive a clear copy or complete fax, please call our office marked above.

Christian County Water District
Consumption in Cubic Feet

1/1/02-5/31/03

Month	12-1000-01	30-3474-01	33-0256-03	38-0037-06	52-0410-08	67-0247-02	70-572-05	77-145-07	77-148-01	77-622-01	78-265-07	82-084-01	Total
Jan-02	1,170,430	801,800	28,360	8,100	323,490	940,940	370,760	4,700	13,610	7,730	238,640	2,530	4,011,080
Feb-02	1,032,810	875,900	18,600	8,890	305,140	820,860	312,490	4,700	13,180	6,880	235,870	3,320	5,634,630
Mar-02	858,870	872,800	13,770	6,310	325,840	770,930	330,520	4,700	11,950	8,590	231,280	2,260	3,437,730
Apr-02	1,033,860	1,048,200	13,070	6,980	358,220	764,520	274,140	4,700	12,670	11,130	257,990	2,090	3,785,440
May-02	1,149,980	901,200	13,750	6,920	283,080	917,890	387,490	4,700	12,670	8,890	350,940	2,030	4,049,310
Jun-02	1,082,050	922,600	21,580	6,200	319,670	980,270	400,980	4,700	18,680	10,110	292,130	2,620	4,063,090
Jul-02	1,533,890	1,069,500	30,200	5,740	385,620	1,170,720	430,400	4,700	17,920	10,880	682,940	3,610	5,324,310
Aug-02	1,762,300	1,082,200	25,190	6,570	378,090	1,129,360	487,890	4,700	17,670	8,960	660,440	3,700	5,584,900
Sep-02	2,109,930	1,189,300	213,730	7,100	384,770	988,740	297,930	12,240	16,880	7,710	748,520	4,280	5,894,520
Oct-02	1,043,050	1,181,800	20,140	11,890	284,830	831,750	423,760	8,110	14,240	6,200	391,050	8,620	4,227,160
Nov-02	1,068,680	837,300	18,400	6,680	239,140	920,780	321,490	8,930	14,890	5,570	247,110	11,820	3,726,770
Dec-02	1,032,030	1,010,700	19,280	4,670	277,140	884,910	365,340	7,250	16,000	8,320	274,800	7,750	3,915,010
Jan-03	1,016,290	686,200	20,710	5,090	238,800	925,870	314,180	9,720	17,480	7,140	282,200	8,850	3,709,340
Feb-03	1,128,070	1,054,900	48,970	4,680	263,140	1,076,530	406,020	8,980	18,090	6,210	375,680	8,160	4,399,870
Mar-03	1,334,280	1,015,200	12,860	7,260	283,890	1,036,330	368,490	9,460	17,870	8,530	300,380	7,160	4,601,470
Apr-03	1,186,190	1,133,400	21,370	8,900	297,020	910,360	369,350	7,140	15,100	5,970	285,480	8,980	4,228,280
May-03	1,031,930	1,109,900	21,770	6,480	265,160	1,068,870	422,450	9,370	18,560	8,150	274,350	9,520	4,232,510
	26,805,380	17,111,200	588,710	114,280	5,189,530	16,147,360	6,274,080	115,780	263,380	134,789	2,068,090	56,850	72,908,370

**HWEA Calculation of 1.3
Multiplier Rate - CCWD
6/04/03, Page 1 of 1**

1995 RATE SCHEDULE

\$1.73/100 CF First 3000 CF
\$1.42/100 CF Next 3000 CF
\$1.12/100 CF Next 3000 CF
\$0.86/100 CF All over 9000 CF

Average rate increase in 2001 was 6%*
 $\$0.86 \times 1.06 = \0.912

Princeton Road Master Meter: 5/03 Consumption: 255,160 CF

\$1.77/100 CF (First 3000 CF)	= \$53.10
\$1.55/100 CF (Next 3000 CF)	= \$46.50
\$1.12/100 CF (Next 3000 CF)	= \$33.60
\$0.912/100 CF (All over 9000 CF)	
$(255,160 - 9000 = 246,160 \text{ CF} \div 100 = 2,461.6 \times \0.912	= \$2,244.98

Sub Total	\$2,378.18
Multiplier	$\times 1.3$
	\$3,091.63

$255,160 \text{ CF} \times 7.48 \text{ gal/CF} = 1,908,596.8 \text{ gallons}$
 $1,908,596.8 \div 1000 = 1,908.60$

$3,091.63 + 1,908.60 = \$1.62/1000 \text{ gallons}$

*Some large users such as
Flynn had a 20% increase.

DAMON R. TALLEY, P.S.C.

112 N. LINCOLN BLVD.
P.O. BOX 150
HODGENVILLE, KENTUCKY 42748

TEL. (270) 358-3187
FAX (270) 358-9560

DAMON R. TALLEY

ATTORNEY AT LAW

June 9, 2003

Hon. Andrew C. Self
Deatherage, Myers, Self & Lackey
P. O. Box 1065
Hopkinsville, KY 42241-1065

RE: Hopkinsville Water Environment Authority and
Christian County Water District
Case No. 2003-00087

Dear Andrew:

In a spirit of compromise to resolve the wholesale rate dispute with the Hopkinsville Water Environment Authority ("HWEA"), the Board of Commissioners of the Christian County Water District ("Water District") has authorized me to make the following settlement proposal:

1. The wholesale rates that HWEA shall charge the Water District are set forth in Schedule 1, which is attached hereto and incorporated herein by reference;
2. The Water District shall pay HWEA the sum of \$25,000, which shall be paid in five (5) equal monthly installments of \$5,000 each, commencing on or before September 15, 2003 and continuing on or before the 15th day of each and every month thereafter until paid;
3. The term of the existing Water Purchase Contract ("Contract") between the parties shall be extended so that there will be 42 years remaining on the Contract;
4. The Contract shall be amended so that HWEA shall furnish the Water District such quantities of water as may be required by the Water


District, but not to exceed 49,000,000 gallons per month plus the amount of water transported through the Water District's transmission mains to the Crofton Water System which is owned and operated by HWEA;

5. The Settlement Agreement will be contingent upon approval by the Kentucky Public Service Commission ("PSC"); and
6. The Water District pledges to use its best efforts to help expedite the approval of the Settlement Agreement by the PSC.

The Water District is interested in consolidating the Contract and its numerous amendments and extensions into one agreement. It also desires to return to a wholesale rate that is calculated by a formula similar to the formula contained in the 1973 Contract. After this case is settled, the Water District pledges to negotiate in good faith with HWEA to update the Contract and the 1973 formula.

Please discuss this settlement proposal with your client as soon as possible and let me know whether it is acceptable. If you have any questions, or need any additional information, please let me know.

Yours truly,
DAMON R. TALLEY, P.S.C.


DAMON R. TALLEY

DRT:ln

Enclosure

cc: James Owen, General Manager, CCWD
John P. Kirkham

DEATHERAGE, MYERS, SELF & LACKEY

ATTORNEYS AT LAW

701 SOUTH MAIN STREET

POST OFFICE BOX 1065

HOPKINSVILLE, KENTUCKY 42241-1065

ANDREW C. SELF

June 13, 2003

TELEPHONE 270-886-6800

TELECOPIER 270-886-7127

EMAIL aself@dmllaw.com

Hon. Damon R. Talley, P.S.C.
112 N. Lincoln Blvd.
P. O. Box 150
Hodgenville, KY 42748

**RE: Our Client: Hopkinsville Water Environment
Authority**

Your Client: Christian County Water District

Dear Damon:

Thank you for your letter dated June 9, 2003 and your efforts to help forge an agreement between our respective clients with regard to the wholesale water rate issue and other matters. In response to your proposal on behalf of the CCWD, I have been authorized to make the following counter-proposal:

1. The wholesale rates set forth in your Schedule 1 attached to your June 9, 2003 letter are acceptable to HWEA;
2. Based on our calculations, we believe the amount owed to HWEA by CCWD is approximately \$98,000.00. In the spirit of compromise, HWEA would be willing to accept the sum of \$50,000.00, which may be paid in ten (10) equal monthly installments of \$5,000.00 each, commencing on or before September 5, 2003 and continuing on or before the 15th day of each and every month thereafter until paid;
3. Extending the term of the existing Water Purchase Contract ("Contract") between the parties so that there will be 42 years remaining on the Contract is acceptable to HWEA;
4. As you know, the current agreement between the parties provides for a limit of 30 million gallons per month. Increasing that limit by 63% is a fairly substantial increase and potentially limits or restricts our opportunity to attract and serve new customers, including industrial prospects. Nevertheless, HWEA will be willing to agree to increase the limit to 49 million gallons per month subject to the following:
 - A. The CCWD will not be allowed to use more than 2 million gallons per day, without prior approval of HWEA;

Hon. Damon R. Talley
Re: HWEA/CCWD
June 13, 2003
Page 2

B. HWEA must be notified of any extension of lines or tie-on of new customers by CCWD; and

C. The CCWD shall not wholesale or otherwise resale any water provided to it by HWEA.

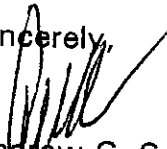
5. HWEA understands and agrees that the settlement agreement will be contingent upon approval by the Kentucky Public Service Commission ("PSC"); and

6. HWEA also pledges to use its best efforts to help expedite the approval of a settlement agreement by the PSC.

Finally, HWEA is also interested in consolidating the Contract and its numerous amendments and extensions into one agreement. It also desires to return to a wholesale rate that is calculated by a formula similar to the formula contained in the 1973 Contract. We are also in agreement that we should begin this effort as soon as this case is settled.

After you have had an opportunity to discuss this matter with your client, please let us know how you would like to proceed. Again, thank you for your efforts with regard to this matter.

Sincerely,


Andrew C. Self

ACS/rmb

C: Len Hale
Robert C. Carter
Hon. John P. Kirkham
Hon. J. Michael Foster
Hon. Steve Tribble

DEATHERAGE, MYERS, SELF & LACKEY

ATTORNEYS AT LAW

701 SOUTH MAIN STREET

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ANDREW C. SELF

TELEPHONE 270-886-6800

TELECOPIER 270-885-7127

EMAIL aSELF@dmsllaw.com

June 13, 2003

Hon. Damon R. Talley, P.S.C.
112 N. Lincoln Blvd.
P. O. Box 150
Hodgenville, KY 42748

**RE: Our Client: Hopkinsville Water Environment
Authority
Your Client: Christian County Water District**

Dear Damon:

Thank you for your letter dated June 9, 2003 and your efforts to help forge an agreement between our respective clients with regard to the wholesale water rate issue and other matters. In response to your proposal on behalf of the CCWD, I have been authorized to make the following counter-proposal:

1. The wholesale rates set forth in your Schedule 1 attached to your June 9, 2003 letter are acceptable to HWEA;
2. Based on our calculations, we believe the amount owed to HWEA by CCWD is approximately \$98,000.00. In the spirit of compromise, HWEA would be willing to accept the sum of \$50,000.00, which may be paid in ten (10) equal monthly installments of \$5,000.00 each, commencing on or before September 5, 2003 and continuing on or before the 15th day of each and every month thereafter until paid;
3. Extending the term of the existing Water Purchase Contract ("Contract") between the parties so that there will be 42 years remaining on the Contract is acceptable to HWEA;
4. As you know, the current agreement between the parties provides for a limit of 30 million gallons per month. Increasing that limit by 63% is a fairly substantial increase and potentially limits or restricts our opportunity to attract and serve new customers, including industrial prospects. Nevertheless, HWEA will be willing to agree to increase the limit to 49 million gallons per month subject to the following:
 - A. The CCWD will not be allowed to use more than 2 million gallons per day, without prior approval of HWEA;

Hon. Damon R. Talley
Re: HWEA/CCWD
June 13, 2003
Page 2

B. HWEA must be notified of any extension of lines or tie-on of new customers by CCWD; and

C. The CCWD shall not wholesale or otherwise resale any water provided to it by HWEA.

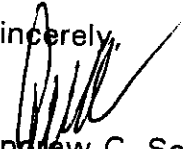
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6. HWEA also pledges to use its best efforts to help expedite the approval of a settlement agreement by the PSC.

Finally, HWEA is also interested in consolidating the Contract and its numerous amendments and extensions into one agreement. It also desires to return to a wholesale rate that is calculated by a formula similar to the formula contained in the 1973 Contract. We are also in agreement that we should begin this effort as soon as this case is settled.

After you have had an opportunity to discuss this matter with your client, please let us know how you would like to proceed. Again, thank you for your efforts with regard to this matter.

Sincerely,


Andrew C. Self

ACS/rmb

C: Len Hale
Robert C. Carter
Hon. John P. Kirkham
Hon. J. Michael Foster
Hon. Steve Tribble

DEATHERAGE, MYERS, SELF & LACKEY
ATTORNEYS AT LAW
701 SOUTH MAIN STREET
POST OFFICE BOX 1065
HOPKINSVILLE, KENTUCKY 42241-1065

ANDREW C. SELF

June 19, 2003

TELEPHONE 270-886-6800
TELECOPIER 270-885-7127
EMAIL aself@dmsllaw.com

Hon. Damon R. Talley, P.S.C.
112 N. Lincoln Blvd.
P. O. Box 150
Hodgenville, KY 42748


**RE: Our Client: Hopkinsville Water Environment
Authority
Your Client: Christian County Water District**

Dear Damon:

Pursuant to our discussion, please find enclosed a map which I hope more clearly shows the proposed areas which HWEA would be willing to receive from the CCWD as a part of a compromise agreement. The subject areas have been highlighted in yellow. Also, at your request, I am forwarding a copy of this map to Mr. Owen.

If you have any questions or concerns, please let me know.

Sincerely,



Andrew C. Self

ACS/rmb

Enclosure

C: Len Hale
James Owen

Exhibit A
HWEA / CCWD Water Service Area Boundary Revisions
10 June 2003



- Transportation CL [050183]
 STATE HWY AGENCY
 COUNTY HWY AGENCY
 MUNICIPAL HWY AGENCY
 MILITARY RESERVATION
 PRIVATE
 STATE PARK
 Rail Transportation
 Rail Transportation [Abandoned]
 Hydrographic Centerline
 Hydrographic Boundary
 Hopkinsville City Limits [051503]
 HWEA - Hopkinsville Division WSA
 Christian County

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7

Hopkinsville, KY 42241-0007

Phone: 270-886-3696

Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

Austin Young
Secretary

J. David Johnson
Treasurer

Steve Hunt

Ashbel Brunson

June 26, 2003

Len Hale, General Manager
Hopkinsville Water Environmental Authority
P O Box 628
Hopkinsville, KY 42241-0628

RE: Andrew Self Correspondence

Dear Mr. Hale:

As you are aware the Public Service Commission scheduled an informal conference on June 19th. The purpose of this conference was an attempt to mediate a cost based wholesale water rate agreement. CCWD was invited to meet with HWEA on June 4th prior to this conference. This meeting was an attempt to resolve any differences concerning interpretation of the proposed new wholesale rate.

This meeting did occur. It was our understanding that pending PSC and City Council approval the following items were agreed to: (1) a new wholesale rate would be established using a base rate of \$1.59 per thousand gallons (though no data was provided by HWEA to allow for determination as to whether this new proposed rate was cost based). (2) There would be a 42 year extension of the existing Water Purchase Contract ("Contract"). (3) HWEA would furnish to the Water District 49 million gallons per month. (4) HWEA had requested \$100,000 back pay; CCWD had approved \$25,000 back pay if approved by the PSC (please reference your January 17, 2002 correspondence from the PSC). It appears that this correspondence reflects the position of the PSC in regard to item 4.

It was the opinion of our Board that all matters except the question of PSC approval or disapproval of back pay and the amount, if applicable, was settled. Later, a June 13th 2003 updated proposal from Mr. Self was

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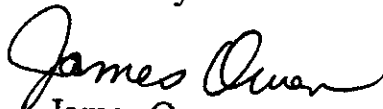
received. This proposal lowered your request for back pay from \$100,000 to \$50,000. This was keeping within the spirit of our June 4th meeting. Unfortunately, some additional items were introduced. Under items 4B and 4C, CCWD could not "otherwise resale any water", and must notify HWEA each time we added a new customer. The sole purpose of CCWD is to resell water to our customers and without this right, we would cease to exist.

On June 19th Mr. Self generated another correspondence which was addressed to Mr. Tally; it stated "pursuant to our discussion, please find enclosed a map which I hope more clearly shows the proposed areas which HWEA would be willing to receive from the CCWD as part of a compromise agreement." Unfortunately, I am personally unaware of any discussion concerning this issue at our June 4th meeting. Therefore, as a point of clarification so that we may discuss this matter with our Board, basically, what is Mr. Self's proposal? Any clarification would be beneficial. As it currently stands, we do not know if these are areas which HWEA would like to purchase or exchange for areas already in HWEA possession.

Our next Board Meeting is Thursday July 3rd. If you could supply me with some type of clarification prior to this meeting, I would be happy to pass this information on to our Board. Unfortunately, these added issues may unintentionally slow or delay our attempts to reach a speedy agreement on the proposed new wholesale rate. If it is the desire of HWEA to expedite the proposed wholesale rate increase, it might be prudent to stick with the four items that were initially agreed on; then at a later date, address these new issues.

As always, we appreciate any information your might be willing to supply.

Sincerely


James Owen
General Manager

DEATHERAGE, MYERS, SELF & LACKEY

ATTORNEYS AT LAW

701 SOUTH MAIN STREET

POST OFFICE BOX 1065

HOPKINSVILLE, KENTUCKY 42241-1065

ANDREW C. SELF

TELEPHONE 270-886-6800

TELECOPIER 270-885-7127

EMAIL aself@dmsllaw.com

July 16, 2003

Hon. Damon R. Talley, P.S.C.
112 N. Lincoln Blvd.
P. O. Box 150
Hodgenville, KY 42748

**RE: Our Client: Hopkinsville Water Environment
Authority
Your Client: Christian County Water District
PSC Case No. 2003-00087**

Dear Damon:

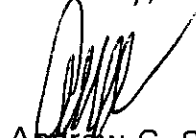
This will confirm our telephone conversation this morning in which I advised you that the Hopkinsville Water Environment Authority (HWEA) has accepted the proposal from the Christian County Water District (CCWD) as follows:

The wholesale water rates that HWEA shall charge the CCWD shall be in accordance with the parties' agreement set forth in the 1996 amendment which provides for a 1.3 multiplier times the applicable city rates, with the understanding that the fourth tier subsequently deleted by the Hopkinsville City Council shall be included in calculating the rate to be charged to the CCWD.

As I indicated to you, I believe this is the only issue that is subject to the jurisdiction of the PSC.

Thank you for your attention to this matter. Please let me hear from you as soon as possible so that we may determine how to respond to the PSC prior to the agreed upon deadline of July 21, 2003.

Sincerely,



Andrew C. Self

ACS/rmb

c: Len Hale

DAMON R. TALLEY, P.S.C.

112 N. LINCOLN BLVD.
P.O. BOX 150
HODGENVILLE, KENTUCKY 42748

TEL. (270) 358-3187
FAX (270) 358-9560

DAMON R. TALLEY

ATTORNEY AT LAW

July 18, 2003

Hon. Andrew C. Self
Deatherage, Myers, Self & Lackey
P. O. Box 1065
Hopkinsville, KY 42241-1065

RE: Hopkinsville Water Environment Authority and
Christian County Water District
Case No. 2003-00087

Dear Andrew:

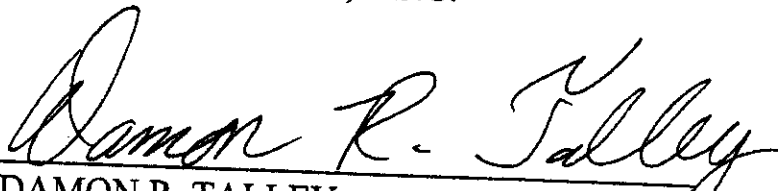
The purpose of this letter is to clarify the current position of the Hopkinsville Water Environment Authority ("HWEA") with respect to the various settlement proposals and counter-proposals that have been made in this case. HWEA's position is as follows:

1. The only offer "on the table" is the offer contained in your July 16, 2003 letter to me;
2. HWEA has withdrawn the settlement proposal contained in your June 13, 2003 letter to me; and
3. HWEA has rejected the settlement proposal from the Christian County Water District ("Water District") contained in my July 8, 2003 letter to you.

In short, HWEA has offered to charge the Water District the rates set forth in Schedule 1 which was attached to my June 9, 2003 and my July 8, 2003 letters if the Water District will agree to these rates.

The Water District is considering HWEA's latest settlement offer and will let you know if it is acceptable as soon as possible.

Yours truly,
DAMON R. TALLEY, P.S.C.


DAMON R. TALLEY

DRT:ln

Enclosure

cc: James Owen, General Manager, CCWD
John P. Kirkham

CHRISTIAN COUNTY WATER DISTRICT

P.O. Box 7
Hopkinsville, KY 42241-0007
Phone: 270-886-3696
Fax: 270-886-0708

Water Commissioners

William Lile
Chairman

Austin Young
Secretary

J. David Johnson
Treasurer

Steve Hunt

Ashbel Brunson

July 18, 2003

Damon Tally
Attorney at Law
P O Box 150
Hodgenville, KY 42748-0150

RE: HWEA Response (7-17-03)

Dear Mr. Tally:

I appreciate you faxing HWEA's response and calling later. I realize I am somewhat dense. However, I did not entirely understand their response. When I read their response, I was under the impression that they accepted all the points we had agreed to and we were to proceed. After we talked, I understood that they had refused all points and had only agreed to the rate increase they had offered earlier without supplying the requested verification, documentation or financial data as requested by the District.

It was my interpretation that the Board of the District as a token of reconciliation would agree to this temporary rate increase until: (1) A cost base rate analysis could be conducted and a new cost based rate agreement reached (within a prescribed time limit), (2) As a like token of reconciliation, HWEA had agreed to increase daily withdrawal rate to 2 million gallons per day and extend CCWD contract withdrawal time for an additional 42 years because of our phase VI Rural Development project, (3) Plus some minor contract language covering wholesaling by the District.

This was the way I understood the developments. I am assuming now from our conversation on 7-17-03, unless the District turns over to HWEA large

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areas of the District's service territory the only thing we are now offered is the rate increase they offered on July 4, 2003.

I must convey this information to the Board and so that I do not misinterpret anything or unintentionally muddy the water. Would you either send me your interpretation of your conversation with HWEA counsel or request they prepare a more detailed written response so this could be conveyed to our Board.

As always, we appreciate your help. However, right now I am of the understanding that apparently everything is either off or back to square one. I hope this is not the case. But, if it is at least we have proven that we have made every good faith effort to be fair with HWEA concerning their financial needs. Their desire for domination or conquest goes beyond any proposed ideal of simply a rate increase request.

Confused!!!

A handwritten signature in cursive script that reads "James Owen". The signature is fluid and stylized, with a large initial "J" and a long, sweeping underline.

James Owen
General Manager

DAMON R. TALLEY, P.S.C.

112 N. LINCOLN BLVD.
P.O. BOX 150
HODGENVILLE, KENTUCKY 42748

TEL. (270) 358-3187
FAX (270) 358-9560

DAMON R. TALLEY

ATTORNEY AT LAW

August 5, 2003

Hon. Andrew C. Self
Deatherage, Myers, Self & Lackey
P. O. Box 1065
Hopkinsville, KY 42241-1065

RE: Hopkinsville Water Environment Authority and
Christian County Water District
Case No. 2003-00087

Dear Andrew:

This will confirm our July 25, 2003 and other telephone conferences concerning the Christian County Water District's ("Water District's") response to the July 16, 2003 settlement proposal from the Hopkinsville Water Environment Authority ("HWEA").

The Board of Commissioners of the Water District met on July 24, 2003 and authorized me to propose a wholesale rate of **\$1.62** per 1,000 gallons.


According to information provided by Len Hale at our settlement conference on June 4, 2003 and in a letter dated June 5, 2003, the approximate "average" or "effective" rate for the Water District will be \$1.62 per 1,000 gallons if the rate is calculated by multiplying the applicable city rates for all four (4) tiers by a 1.3 multiplier as contemplated in the 1996 contract amendment. Historically, HWEA has always charged the Water District a flat wholesale rate rather than "stepped down" rates as paid by retail customers. Because of the parties prior course of dealing, convenience and simplicity, the Water District urges HWEA to continue charging a flat wholesale rate to the Water District.

The Water District understands that the wholesale rate will need to be adjusted as HWEA's cost of providing wholesale water service to the Water District changes. Therefore, the Water District pledges to negotiate in good faith with HWEA to either

update and reinstate the 1973 formula or to utilize any other mutually agreeable mechanism for adjusting the wholesale rate.

Please discuss this settlement proposal with your client as soon as possible and let me know whether it is acceptable. If you have any questions, or need any additional information, please let me know.

Yours truly,
DAMON R. TALLEY, P.S.C.


DAMON R. TALLEY

DRT:ln

Enclosure

cc: James Owen, General Manager, CCWD
John P. Kirkham

DEATHERAGE, MYERS, SELF & LACKEY
ATTORNEYS AT LAW
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ANDREW C. SELF

August 7, 2003

Hon. Damon R. Talley, P.S.C.
112 N. Lincoln Blvd.
P. O. Box 150
Hodgenville, KY 42748

RE: Our Client: Hopkinsville Water Environment
Authority
Your Client: Christian County Water District
PSC Case No. 2003-00087

Dear Damon:

Thank you for your letter dated August 5, 2003. We greatly appreciate your professionalism and cooperation in attempting to resolve this matter.


However, HWEA must respectfully reject the CCWD's counterproposal to buy water at a flat rate of \$1.62 per thousand gallons. Although there are several concerns we have about this counterproposal, including how and when future modifications would occur, the most significant concern is that such a rate would have to be approved by the Hopkinsville City Council. Based on previous experience, we believe it is extremely unlikely that the City Council would approve such a rate.

Quite frankly, we thought the rate issue had been resolved consistent with the agreed upon terms reflected in the 1996 Contract Amendment. With the inclusion of the fourth tier, we believe that the rate formula set forth in the 1996 Contract Amendment is ethically, morally, and legally binding on the part of the City Council. Therefore, we renew the settlement proposal from HWEA set forth in my letter to you dated July 16, 2003.

Hon. Damon R. Talley
Re: HWEA/CCWD
August 7, 2003
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It is my understanding that you are going to meet with the CCWD at its regular board meeting this evening and that we are required to provide a response to the PSC on or before August 12, 2003. We will look forward to hearing from you at your earliest convenience.

Sincerely,



Andrew C. Self

ACS/rmb

c: Len Hale
Bob Carter
Hon. Steve Tribble
Hon. J. Michael Foster